

MEMORANDUM



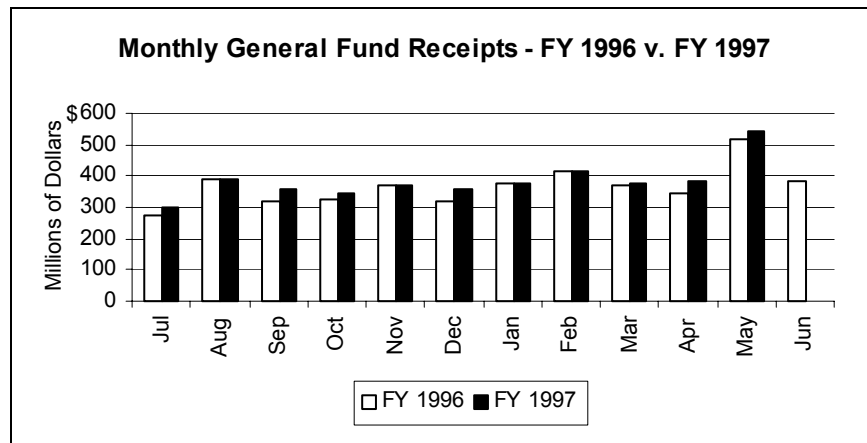
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

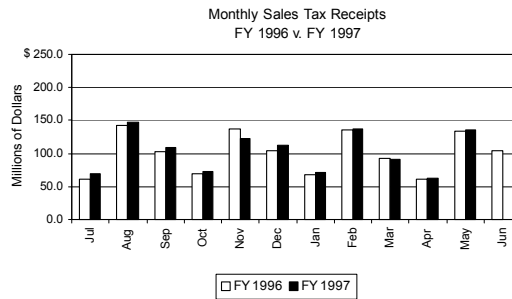
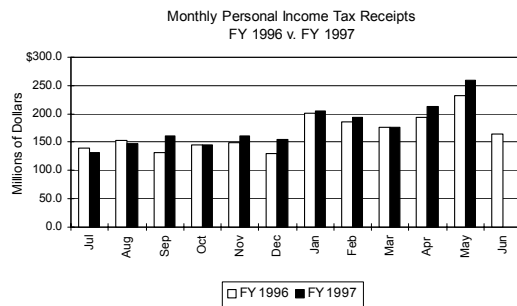
DATE: June 2, 1997

General Fund Receipts Through May 31, 1997

The attached spreadsheet represents total FY 1997 General Fund receipts, with comparable figures for FY 1996. These can be compared to the latest FY 1997 estimate (\$4.611 billion) set by the Revenue Estimating Conference (REC) on April 10, 1997. The estimate represents an increase of \$204.2 million (4.6%) compared to FY 1996. The FY 1998 estimate of \$4.715 billion represents an increase of \$103.7 million (2.2%) compared to the revised FY 1997 estimate.



Total General Fund receipts collected in May were 5.1% greater than May 1996. Total year-to-date General Fund receipts for the first 11 months of FY 1997 increased 5.0% compared to FY 1996. Tax receipts also showed an increase of 5.2%. Personal income tax receipts increased 6.1%. Sales tax receipts were 2.2% higher than the previous fiscal year. Use tax receipts and corporate income tax receipts exceeded last year's level by 7.3% and 7.2%, respectively.



Gross personal income tax revenues received in May were \$27.6 million (11.9%) greater than May 1996. All three income tax revenue sources (returns, withholding, and estimate payments) contributed to the increased growth rate. The returns account finished the month \$10.0 million (13.7%) higher than a year ago. Year-to-date total receipts posted to the returns account were 12.1% greater than the first 11 months of FY 1996. The Department of Revenue and Finance is in the process of evaluating the processing implications of return payments.

Withholding receipts in May exceeded last year's level by \$14.9 million (10.6%). The growth in receipts from withholding has been reasonably stable over the last six months, with the year-to-date growth rate ranging from a low of 4.9% to a high of 5.8%. Year-to-date through May, withholding receipts exceeded last year's level by \$75.7 million (5.4%). Given consistently low inflation and stable labor trends, the performance of this revenue source is another indication the State's general economy remains healthy.

Estimate payments, which were due April 30, grew 15.1% in May. For the April/May two-month period, estimate payments exceeded last year's level by 6.6%. Year-to-date, estimate payments posted a 4.5% gain compared to the first 11 months of FY 1996.

The REC FY 1997 income tax estimate of \$2.109 billion represents a projected increase of 5.4% compared to FY 1996. The REC estimate will be exceeded by \$3.1 million if receipts in June match last year's level of \$165.1 million.

Sales tax receipts in May grew 1.6% compared to May 1996. The lingering effects of the November local option reconciliation payment are still being reflected in the year-to-date growth rate of 2.2%. The Fiscal Bureau issued an analysis of sales tax activity to the Fiscal Committee on May 29. Although sales tax receipts have experienced little growth over last year's level, the conclusion of the analysis suggests there is currently no cause for alarm with respect to implications on total General Fund receipts.

For the past six months, which does not include the local option effect, sales tax receipts exceeded last year's level by \$17.9 million (3.0%). To reflect lower sales tax activity, the April REC reduced the FY 1997 estimate by \$15.0 million to \$1.260 billion, an increase of 3.9% compared to FY 1996. It is currently unlikely that sales tax receipts in June will be substantial enough to raise the yearly total to a level consistent with the REC estimate. Nonetheless, growth in other revenue sources appears strong enough to counteract lower than expected sales tax revenues.

Corporate income tax receipts in May were 1.4% greater than May 1996. Year-to-date receipts exceeded FY 1996 levels by \$18.2 million (7.2%). The current REC estimate of \$295.0 million represents an increase of 6.3% compared to actual FY 1996 corporate income tax receipts.

Franchise tax receipts through the first 11 months of FY 1997 totaled \$31.9 million, an increase of \$8.6 million (36.9%) compared to FY 1996, providing further evidence that tax avoidance measures utilized by financial institutions may be diminishing. The \$11.8 million collected since April 1 was the largest two-month period on record, and exceeded last year's April/May period by \$4.8 million (69.4%).

Because the April REC did not have any final return data, the FY 1997 franchise tax estimate was not adjusted, and remains at \$30.0 million, which is \$1.9 million less than the amount already received.

Racing and gaming receipts - The REC anticipates total racing and gaming receipts will reach \$120.7 million in FY 1997, \$60.0 million of which is deposited in the General Fund. This level would result in a transfer of \$60.7 million to the Rebuild Iowa Infrastructure Fund (RIIF) in FY 1997. All racing and gaming receipts going to the General Fund have been collected. For comparison purposes, no racing and gaming receipts were deposited in the General Fund after February last year either. Consequently, growth in General Fund receipts will have to be generated from other revenue streams. The REC projects \$65.2 million will be transferred to the RIIF in FY 1998.

Refunds

The Fiscal Bureau issued a memo to the Fiscal Committee on May 29 describing refunds activity. Although processing implications have rendered a direct comparison impracticable at this time, the total refunds estimate of \$387.9 million established by the April REC appears to be on track.

Receipts Compared to REC Estimate

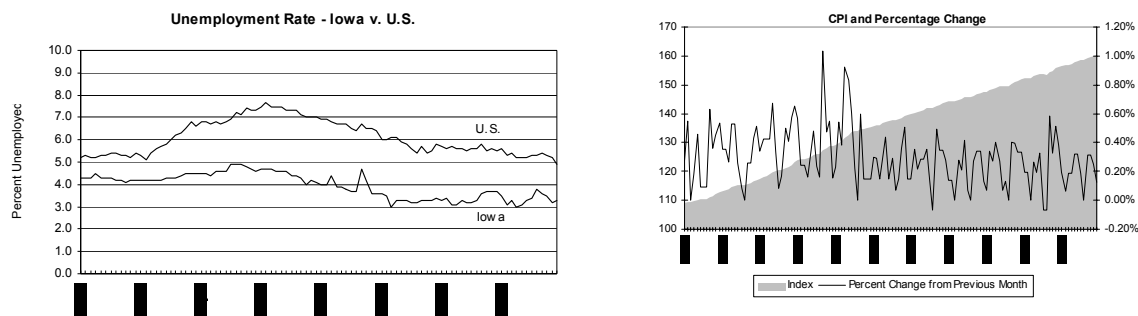
The April REC FY 1997 estimate of \$4.611 billion represents an increase of 4.6% compared to actual FY 1996 General Fund receipts. Assuming each month is expected to increase by the REC estimate, receipts collected in the first 11 months exceeded the estimate by \$16.1 million (unadjusted for any timing factors).

General Fund receipts for the last two months of FY 1997 will have to exceed the FY 1996 level by \$4.4 million (1.1%) to reach the current REC estimate. Approximately \$383.0 million was received in June 1996.

Status of the Economy

The seasonally adjusted percent unemployed for the State increased one-tenth of a point to 3.3% in April. The unemployment rate a year ago was 3.7%. Iowa's total employment registered 1,565,400, down from the March record high of 1,574,400. The U.S. unemployment rate in April decreased to 4.9% from March's 5.3% rate.

Consumer prices in March increased three-tenths of a point. The Consumer Price Index (CPI) through March 1997 was 160.0 (1983=100), which is 2.8% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through March 1997.



Information related to State General Fund receipts continues to be made available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Jon Muller (515-281-4611).

GENERAL FUND RECEIPTS - FY 1997 vs. FY 1996					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1996, through May 31, 1997, in millions of dollars					FY 96 Actual Compared to FY 97 REC Estimate			
	FY 1996	FY 1997	Year to Date % CHANGE	May % CHANGE	Actual FY 1996	Estimate FY 1997	% CHANGE	
Personal Income Tax	\$ 1,835.8	\$ 1,947.0	6.1%	11.9%	\$ 2,000.9	\$ 2,109.0	5.4%	
Sales Tax	1,108.0	1,132.7	2.2%	1.5%	1,213.0	1,260.0	3.9%	
Use Tax	196.9	211.2	7.3%	-0.1%	207.8	225.0	8.3%	
Corporate Income Tax	251.7	269.9	7.2%	1.4%	277.6	295.0	6.3%	
Inheritance Tax	88.2	99.3	12.6%	-18.7%	95.9	108.0	12.6%	
Insurance Premium Tax	77.4	79.0	2.1%	3.5%	104.3	107.0	2.6%	
Cigarette Tax	85.3	85.3	0.0%	-4.6%	94.1	95.0	1.0%	
Tobacco Tax	4.8	5.2	8.3%	19.4%	5.3	5.5	3.8%	
Beer Tax	11.3	11.3	0.0%	1.3%	12.6	12.5	-0.8%	
Franchise Tax	23.3	31.9	36.9%	31.3%	26.5	30.0	13.2%	
Miscellaneous Tax	1.8	1.8	0.0%	-162.5%	0.9	0.9	0.0%	
Total Special Taxes	\$ 3,684.5	\$ 3,874.6	5.2%	6.0%	\$ 4,038.9	\$ 4,247.9	5.2%	
Institutional Payments								
Liquor Transfers:	97.0	95.4	-1.6%	-17.4%	105.0	102.2	-2.7%	
Profits	24.0	26.0	8.3%	0.0%	29.0	30.0	3.4%	
7% Gross Revenue	8.3	8.3	0.0%	0.0%	9.0	9.0	0.0%	
Interest	11.8	15.7	33.1%	62.1%	13.5	14.5	7.4%	
Fees	56.2	56.9	1.2%	-24.9%	61.7	60.1	-2.6%	
Judicial Revenue	35.3	37.8	7.1%	-1.8%	40.0	40.1	0.2%	
Miscellaneous Receipts	46.3	48.7	5.2%	-4.8%	49.5	47.0	-5.1%	
Racing and Gaming Receipts	60.0	60.0	0.0%	n/m	60.0	60.0	0.0%	
TOTAL RECEIPTS	\$ 4,023.4	\$ 4,223.4	5.0%	5.1%	\$ 4,406.6	\$ 4,610.8	4.6%	